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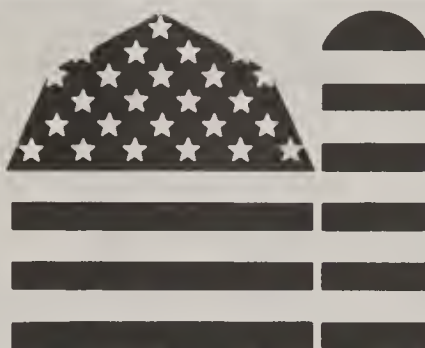
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Cap. 2

# FARMERS' NEWSLETTER

## Wheat



June 81/W-18

### Record U.S. Wheat Supply Ahead

Ample rains on the Plains in the last few months provided relief from the lack of precipitation last winter in many winter wheat areas and brightened prospects for the total 1981 U.S. wheat crop. However, a mid-May freeze damaged some of the Hard Red Winter crop, particularly in Kansas. Deficient subsoil moisture remains a concern in some parts of the Northern Plains' spring wheat areas.

As of May 1, the U.S. winter wheat crop is forecast at 2.08 billion bushels, the first 2-billion bushel crop ever. The outlook for spring wheat is less certain, as the crop is just emerging. But yields are likely to be higher than last year's drought-reduced levels.

Because of the record seeded area--an estimated 87 million acres--total 1981 production could reach a new high of 2.7 billion bushels, up nearly 15 percent from 1980's record 2.37 billion.

Wheat stocks going into the crop year that began on June 1, at 954 million bushels, are up slightly from a year ago. As a result, total wheat supply could be another record high--topping 3 billion bushels for the third time in the last 4 years.

The current outlook suggests that total

### U.S. WHEAT SUPPLY UP SHARPLY

| Class               | 1978  | 1979  | 1980  | 1981 <sup>1</sup> |
|---------------------|-------|-------|-------|-------------------|
| Million bushels     |       |       |       |                   |
| Hard Red Winter .   | 1,462 | 1,512 | 1,625 | 1,773             |
| Hard Red Spring .   | 715   | 683   | 596   | 669               |
| Durum . . . . .     | 200   | 192   | 169   | 228               |
| Soft Red Winter . . | 260   | 344   | 468   | 598               |
| White . . . . .     | 317   | 327   | 414   | 389               |
| Total . . . . .     | 2,954 | 3,058 | 3,272 | 3,657             |

<sup>1</sup> Estimated.

wheat supply could be up more than a tenth from a year ago. New highs are likely for all classes except White. USDA will report crop progress several times between now and final harvest.

Bread wheat stocks of Hard Red Winter and Spring should be record high, up 9 to 12 percent. Total pastry wheat supplies will also be a record with a possible 30-percent increase of Soft Red--more than enough to offset a small reduction in soft White stocks.

After 2 years of declining pasta wheat (Durum) stocks, anticipated near-record plantings this year make a record Durum supply highly likely.

### What To Do With All This Wheat?

Bumper crops are traditionally viewed as a blessing. But what does the United States do with enough wheat to provide all its own needs for the next 4 years without growing another crop? Strong world wheat trade is needed again this year and the United States must try to expand its share of world markets.

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The next wheat newsletter is scheduled for early September.

## WHEAT SUPPLY MAY BE UP MORE THAN A TENTH

|                         | 1979/80 | 1980/81<br>Preliminary | 1981/82<br>Forecast* |
|-------------------------|---------|------------------------|----------------------|
| Million bushels         |         |                        |                      |
| Supply:                 |         |                        |                      |
| Beginning stocks . .    | 924     | 902                    | 954                  |
| Production. . . . .     | 2,134   | 2,370                  | 2,702 ± 220          |
| Imports . . . . .       | 2       | 2                      | 2                    |
| Total supply. . . .     | 3,060   | 3,274                  | 3,659 ± 220          |
| Use:                    |         |                        |                      |
| Food . . . . .          | 595     | 610                    | 620 ± 5              |
| Seed . . . . .          | 101     | 110                    | 107 ± 5              |
| Feed . . . . .          | 87      | 75                     | 150 ± 50             |
| Exports . . . . .       | 1,375   | 1,525                  | 1,575 ± 150          |
| Total use. . . . .      | 2,158   | 2,320                  | 2,452 ± 175          |
| Ending stocks . . . .   | 902     | 954                    | 1,207 ± 180          |
| Dollars per bushel      |         |                        |                      |
| Avg. farm price . . . . | 3.78    | 4.00                   | 3.70-4.30            |

\*As of May 12, 1981

The world wheat harvest is also expected to be record large this season, but global consumption should also remain high in both developed and developing countries. World carryover stocks have been dwindling for the past 2 years.

Also important to U.S. trade prospects is that stocks are low among major foreign exporting nations--Canada, Australia, and Argentina. This makes their export availabilities almost entirely dependent upon their 1981/82 production.

Current world crop conditions are generally favorable, signaling keen competition among exporters. Even so, the U.S. market share should increase slightly as nontraditional exporters are not likely expand shipments as Spain did last year. Any reduced import requirements from the Soviet Union and China are likely to be offset by increases from developing countries.

The United States should be able to increase wheat loadings above the

record 1.53 billion bushels in 1980/81. At this early date, exports are forecast at 1.58 billion bushels, with a range from 1.43 to 1.73 billion.

## Prices Weaken as New Season Begins

Despite a record U.S. wheat supply last season, cautious producer marketing, a pickup in export sales, reduced feed grain and oilseed supplies, and deterioration of the Southern Hemisphere's wheat crops pushed farm prices higher.

Peak farm prices last fall averaged about \$4.30 a bushel, nearly 40 cents above November 1979. That was a major reason for record winter wheat seeding last fall. As the record 1981 crop developed, these higher prices eroded until they were only 20-25 cents above year-ago levels during May.

Despite slightly higher prices at the start of the new marketing year, demand will have to strengthen appreciably to prevent harvest prices from dropping to or below 1980 levels. At this early date, the 1981/82 average farm price is expected to be within a range of \$3.70 to \$4.30, and may average below last season's \$4 per bushel. Deficiency payments will be made if farm prices average below the \$3.81 target price for June-October.

## Planning Your Marketing Strategy

Based on this bearish price outlook for the new wheat year, growers will have to time their selling strategies toward squeezing every cent possible from the market place. You should take advantage of price rallies as good selling opportunities.

Yet because of abundant wheat supplies, any general rush toward selling can quickly turn prices back down. So at this time, a cautious spaced-out selling pattern throughout the year would seem more prudent and should boost average gross returns.



## WORLD WHEAT STOCKS LOW AGAIN THIS YEAR<sup>1</sup>

|                        | Beginning<br>stocks <sup>2</sup> | Production | Total<br>exports | Total<br>utilization |
|------------------------|----------------------------------|------------|------------------|----------------------|
|                        | Million metric tons              |            |                  |                      |
| 1976/77 . .            | 63.0                             | 421.2      | 63.1             | 385.2                |
| 1977/78 . .            | 98.8                             | 384.2      | 73.0             | 398.5                |
| 1978/79 . .            | 84.0                             | 446.7      | 72.0             | 430.0                |
| 1979/80 . .            | 101.1                            | 422.1      | 86.1             | 444.5                |
| 1980/81 <sup>3</sup> . | 78.6                             | 438.9      | 93.5             | 447.2                |
| 1981/82 <sup>4</sup> . | 70.3                             | 463.4      | 93.7             | 446.8                |

<sup>1</sup> Based on total of differing local marketing years. <sup>2</sup> Selected countries including estimates for the USSR; excludes China, and parts of Eastern Europe for which data are unavailable. <sup>3</sup> Preliminary. <sup>4</sup> Projected.

However, today's high interest rates make stock carrying charges more costly. Quick payment of outstanding production input loans, and the potential for higher returns on invested money have to be considered in your marketing decisions.

The 1981 loan program will provide \$3.20 a bushel for stocks held for marketing later in the season.

These regular loans can be converted to \$3.50-per-bushel loans if wheat is placed in the 3-year farmer-owned reserve, whenever entry is opened. Entry will be announced at a later date.

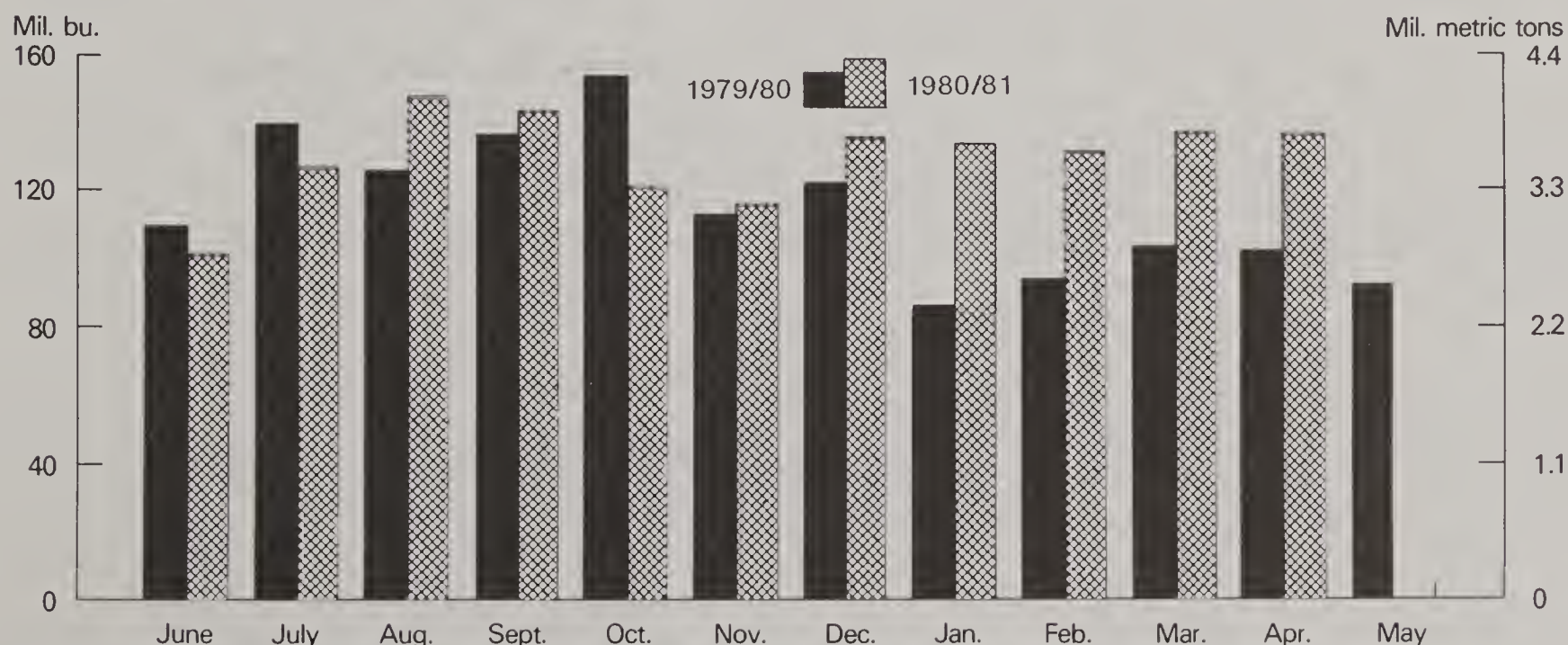
You can not sell wheat currently in the reserve without a penalty if the \$4.48-per-bushel release price is not reached. The reserve also provides a prepaid storage payment of 26.5 cents per bushel, and waives interest payments in the second and third years of the loan.

Remember, interest rates for 1981 commodity loans will be 14.5 percent. And beginning October 1, 1981, rates may be adjusted twice yearly to more fully reflect the cost of borrowed money to the Government.

If you still have outstanding regular loans on your 1980 crop, you're still eligible to convert to the current interest-free reserve loans. Also, if you hold maturing 1976 and 1977 crop reserve loans, you have the option of extending them another 2 years.

Depending on the extent of livestock and poultry production in your area, it may pay to analyze wheat-feed grain price relationships, particularly at harvest, to see if using wheat for

## U.S. WHEAT EXPORTS REACH ALLTIME HIGH



Includes flour and products in wheat equivalent.

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feed would be economical--another marketing option.

Keep tuned to the world scene. Although current conditions favor a good world wheat crop, any sign of deterioration can help lift prices. The end of the embargo may encourage holding up sales in anticipation of USSR purchases--also a likely price strengthening factor. Meetings between U.S. and Soviet officials in London on June 8-9 may result in new sales under the current 5-year agreement that expires September 30.

Also, if you are comfortable using the futures market, keep tabs on the distant months, making certain the spreads are ample to cover carrying charges.

## Record Exports

For the world trade year ending June 30, wheat exports/imports are heading for an alltime high of 93.5 million metric tons--9 percent above the previous season's record. An 11-percent jump in U.S. export loadings means that our wheat trade increased each year since 1976/77 and reached record size in the last two seasons.

In addition, the U.S. share of global trade has been increasing. During the past two seasons, U.S. export activity withstood a number of major events,

including a partial embargo, exceptionally large purchases by the Soviet Union and China, and sharply reduced sales to India and Iran.

The chart on page 3, showing monthly wheat exports, illustrates the patterns of ups and downs that take place in a season. Compared with the previous year, 1980/81 exports began rather slowly due to delayed early purchases by the Soviet Union. Large imports by China strengthened export activity in the final stretch.

Because export activity and price levels are linked but lagged (loadings follow actual sales by 30 to 90 days), farm wheat prices reached their low in April 1980 and advanced about 10 cents per bushel each month to a peak of \$4.30 in November. Prices held at \$4 and above for succeeding months, but weakened in anticipation of a record new crop.

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